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The Department of Social and Health Services, Medical Assistance Administration did not provide the State Auditor's Office with reliable, timely records for our audit of Proshare services.

Background

Since 1999, the Department of Social and Health Services has provided supplemental Medicaid funds to eligible public hospital districts with nursing home facilities that meet established criteria. These supplemental payments are intended to preserve access to health care in rural areas and are subject to the availability of federal matching funds. The Department's Medical Assistance Administration refers to these supplemental funds as Proshare and has provided for Proshare in an amendment to the Washington Medicaid State Plan.

Each state receiving these supplemental funds has the flexibility to determine the method used to calculate the payments. Federal regulations require that each state include in its state plan a detailed description of the specific payment method to be used; this method must be approved by the federal grantor. If this payment method is not included in a state's plan, the state must submit an amendment to describe the method; otherwise, the supplemental payments are not allowable.

Description of Condition

In order to identify expenditure trends, we included in our planning process a comparison of fiscal year 2004 expenditures to fiscal year 2003 expenditures. During that analysis, we identified a fiscal year 2003 discrepancy of \$10 million between the state's official accounting system and the total of the Administration's own records. During our audit, we attempted to determine the cause of this discrepancy. In addition, as our audit proceeded, we found other significant issues, some resulting from previous Proshare payments, that caused us to expand our scope. As a result, we also attempted to determine why:

- The Administration adjusted a fiscal year 2002 federal report to correct a \$733 million dollar overpayment of state and federal funds it received in state fiscal year 2002.
- During the third quarter of fiscal year 2003, an additional adjustment of \$16 million was required, after the initial adjustment, to resolve the fiscal year 2002 overpayment.

We were unable to perform the necessary review to determine if the payments the state made to the public hospital districts under the Proshare program were allowable and if the additional issues we noted could be reasonably explained.

The Administration stated that the Medicaid State Plan is the source of the payment method; however, we found no detailed description of the Administration's method in the State Plan, even though such a description is required by federal regulations.

The Administration also stated that the three discrepancies were due to errors in the calculation method. However, it did not respond to our questions regarding the number of years this incorrect method was used and did not provide us with a description of that method. The Administration also stated that the federal grantor approved its calculations used to adjust all three discrepancies. However, it provided no documentation to support this statement.

We were unable to independently interview line staff. All information given to us for this area was filtered through the Administration's Business and Finance Division. We were informed by staff in certain areas of the Administration that we had to be granted permission from management to speak with them. We made numerous requests for detail and supporting documentation which the Administration did not fulfill. Some replies to our requests were insufficient explanations consisting of only a word or two. In addition, the Administration regularly questioned our authority to expand our audit scope.

Cause of Condition

The Administration stated that the state and the federal grantor negotiated about payment methods and that an agreement was reached and executed by both parties. The Administration stated, however, that it did not feel it should allow the issue to be opened again for the State Auditor to review.

Effect of Condition

Because of an agency-imposed scope limitation, the State Auditor's Office did not have access to resources that would have allowed us to assess controls and to independently evaluate whether the Administration was complying with Medicaid requirements in this area. Therefore, we cannot provide an opinion on compliance regarding Proshare payments to public hospital districts with nursing home facilities.

Payments made to hospitals by this program during the time periods we attempted to audit were:

- State fiscal year 2002 - \$995,021,957 (Federal portion: \$497,510,979)
- State fiscal year 2003 - \$122,238,168 (Federal portion: \$ 61,119,084)
- State fiscal year 2004 - \$ 76,412,880 (Federal portion: \$ 38,206,440)

The federal portion is an approximation; state funds provided the costs not covered by federal funds. The total 2004 amount is included in the overall Program disclaimer.

Recommendations

With respect to compliance with audit requirements, we recommend the Department.

- Ensure that the State Auditor's Office has timely access to the information and resources it needs to complete its audit.
- Ensure managers understand the role of independent audits in reporting on compliance with applicable laws and regulations when a provision of continued receipt of those funds is contingent on compliance.
- Work with the U.S. Department of Health and Human Services to determine if any costs charged to Medicaid federal funds must be reimbursed as a result of this disclaimer.

With respect to compliance with federal regulations, we recommend the Department amend the Medicaid State Plan to include a detailed description of its specific Proshare payment method and obtain federal approval for this amendment.

Department's Response

The Department does not concur with this finding:

- As noted earlier, the Department did not limit SAO access but requested the auditors work with the specific DSHS liaison identified for this audit area. The Division of Business and Finance is responsible for the administration of the ProShare program, which is complex. Accuracy requires intensive management review of pertinent calculations and information presentations. The Department informed SAO that it would be especially necessary to follow the liaison procedures in order to achieve accurate and timely responses.
- The auditor also asked MAA to produce "documentation that confirms that the fed required the recalculation that resulted in an apparent \$10 million discrepancy that we found, as well as CMS approval of the payment of or payment calculation/methodology that was used..." MAA's repeated response was that the Department does not have written documentation that confirms the federally required recalculation, but it did provide SAO with the CMS approval of our methodology (See attachment A).
- While we appreciate SAO's concern over the lack of detailed information about ProShare recalculation, the Department did provide all requested information. It is important to note that the ProShare program is being phased out pursuant to an agreement between Washington State and the federal

Department of Health and Human Services (HHS). This agreement was not written into the Medicaid State Plan, but it was confirmed by HHS staff during the audit.

- HHS has closely reviewed the ProShare calculations during the phase-out period (which is from 2002 through 2005). Because of that, DSHS does not believe this finding will result in a federal disallowance per attachment A. The payments have also been reported on the federal report (CMS-64), and CMS is fully aware of these payments on a quarterly basis.

Auditor's Concluding Remarks

Applicable Laws and Regulations

Disclaimer

RCW 43.09.310 states in part:

...The state auditor shall annually audit the statewide combined financial statements prepared by the office of financial management and make post-audits of state agencies. Post-audits of state agencies shall be made at such periodic intervals as is determined by the state auditor....

The American Institute of Certified Public Accountants, Statement of Position 98-3, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, Paragraph 10.43 and 10.44 states, in part:

The auditor is able to express on an unqualified opinion only if he or she has been able to apply all the procedures the auditor considers necessary in the circumstances. Restrictions on the scope of the audit - whether imposed by the client or by circumstances such as the timing of the auditor's work, an inability to obtain sufficient competent evidential matter, or an inadequacy of the accounting records - may require auditors to qualify their opinion or to disclaim an opinion.

When restrictions that significantly limit the scope of the audit are imposed by the client, the auditor generally should disclaim an opinion on compliance.

Compliance

The federal State Medicaid Manual, subpart 6002.4, mandates that states include a detailed description of their specific payment methodology in their state plans. If this methodology is not currently included in their plans, they must submit an amendment to include it.

The same manual, subpart 6005.1, Other Policy Clarifications, states in part:

The responsibility of complying with the Medicaid...requirements as explained herein, and documenting such compliance, rests with you....(our) oversight of your compliance is performed generally after the fact through an assessment, plan validation, or other audit type activity....